No Babes in Wall Street Woods

Soviets Know U.S. Markets

By Robert E. Dallos
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NEW YORK—The Soviet Union, for all its Communist philosophy, won't be any babe in the woods on Wall Street if it carries out its purported plan to raise money by selling a massive issue of bonds to private U.S. investors.

In fact, the Moscow government's emissaries are showing all the signs of turning into agile investment experts as they prepare quietly for their maiden effort at selling Communist investments to capitalists, an event expected to take place in the next few years.

Soviet banks are hiring experienced financiers from Western countries for big salaries. Russian agencies have bought stock in scores of massively capitalistic U.S. companies. And Kremlin officials have been showing warm Muscovite hospitality to investment brokers, of all people.

The prospect of the Giant Russian bond issue—reportedly a vehicle through which the Soviet Union would raise funds to pay for expanded trade, and for investments to develop the country's vast natural resources—raises some incongruous prospects indeed.

What happens, for instance, to the old, defaulted pre-World War I Russian imperial ("czarist") bonds, for which the Communist government has long since disclaimed responsibility? Those bonds are still bought and sold on the market, at a fraction of their face value, through the New York investment house of Carl Marks & Co.

Then there's the CIA, hoping that the detailed reports required for any securities issue will disgorge new secrets about the U.S.S.R. Much information, under federal securities laws, must be disclosed to the Securities & Exchange Commission in a prospectus investors unfortunately have nicknamed "red herring."

Veteran investment bankers here are puzzling over how the dramatic, unprecedented bond issue will be handled. The planned size is rumored to be hundreds of millions of dollars. Little is known of the specifics; and those who do have an inkling won't say much.

Like any other foreign government or corporation seeking to sell securities in the United States, the Soviet Union will have to register its intentions with the Securities & Exchange Commission in the form of a prospectus. And herein lies the problem. What constitutes full disclosure in the United States could mean revealing state secrets in a Communist nation.

A prospectus requires a securities issuer to give sufficient facts about its operations to enable purchasers to determine if the issue constitutes a sound investment. It must include favorable as well as detrimental information.

Foreign bond issuers are generally required by the SEC to provide such information as the history of the nation, a description of its form of government and of the party in power. Also contained in the prospectus must be an economic picture of the country—its gross national product, export-import and other trade statistics and a breakdown of its budget. So, unless the Americans bend the rules a bit in the name of East-West relations, the Russians wouuld be required to divulge information never made public before.

"It certainly will be a problem for the Russians," says Abraham Zwerling, assistant director of the SEC Division of Corporate Finance, the office which handles between five and 10 foreign bond issues in the United States annually.

But he concedes that even the SEC will be traveling in uncharted waters since there has never been such an issue by any Iron Curtain country in the United States.

A major obstacle to any Russian bond sale is that the Russians still owe the United States $190 million in World War I debts.

Then there's an old law known as the Johnson Act (named for Hiram W. Johnson, the late California senator). That law, passed in the 1930s, made it a criminal offense for any private person to purchase or sell government securities of a foreign nation when that nation is in default of a loan from the U.S. government.

Other nations are in default to the United States. But the Johnson Act was amended after World War II to exempt members of the International Monetary Fund. Russia is not a member of that organization.

"People won't forget the defaulted bonds," says chairman Warrren Berl of Sutro & Co., Inc., San Francisco. "Investors have long memories when it comes to defaults."

According to Irwin Levenstein, an official of Carl Marks, trading in the bonds has been brisk lately. They are trading at about $90 to $100 per $1,000 face value.

That's about double what it was six weeks earlier, Levenstein reports. He traces the price rise to enthusiasm over the general thaw between the U.S. and Russia, the talk of the Russians floating a new issue and the possibility that the U.S.S.R. might actually pay off all or part of the czarist obligations.

If the Russians do indeed bring out the issue, they might not be quite as lavish in their gratitude as the czar was after his country floated the 1904 bond issue.

In the board room of the New York Stock Exchange sits a huge malachite urn, three feet high on a four-foot high base. It bears the czar's seal and was given to the exchange in 1907 in gratitude for the successful flotation of the ill-fated $75 million issue.

"It's the most expensive vase in the world," jokes a Big Board official.

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